

FINANCIAL STATEMENTS AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
LINCOLN COUNTY HOSPITAL  
MARCH 31, 2018 AND 2017

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LINCOLN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Years ended March 31, 2018 and 2017

Our discussion and analysis of the financial performance of Lincoln County Hospital provides a narrative overview of the Hospital's financial activities for the years ended March 31, 2018 and 2017. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital reported an operating loss of \$778,558 in 2018, \$695,673 in 2017, and \$419,113 in 2016. After consideration of tax appropriations and other nonoperating revenues and expenses and capital contributions, the Hospital's net position decreased by \$178,710 or 13.8 percent in 2018 and decreased by \$384,476 or 22.9 percent in 2017.

Using these financial statements

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, and resources held by or for the benefit of the Hospital.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

LINCOLN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended March 31, 2018 and 2017

Assets, deferred outflows, liabilities, and net position

Table 1 below summarizes the Hospital's assets, deferred outflows, liabilities, and net position for the latest three fiscal years.

Table 1: Assets, Deferred Outflows, Liabilities, and Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets			
Current assets	\$ 2,458,225	\$ 2,469,580	\$ 2,518,427
Capital assets, net	4,221,445	4,325,929	4,677,184
Other noncurrent assets	<u>542,183</u>	<u>485,883</u>	<u>677,454</u>
Total assets	<u>7,221,853</u>	<u>7,281,392</u>	<u>7,873,065</u>
Deferred outflows of resources on advance refunding	<u>257,986</u>	<u>286,378</u>	<u>-</u>
Liabilities			
Current liabilities	1,146,194	929,392	852,633
Noncurrent liabilities	<u>5,219,971</u>	<u>5,345,994</u>	<u>5,343,572</u>
Total liabilities	<u>6,366,165</u>	<u>6,275,386</u>	<u>6,196,205</u>
Total net position	<u>\$ 1,113,674</u>	<u>\$ 1,292,384</u>	<u>\$ 1,676,860</u>

Our ratio of current assets to current liabilities decreased to 2.1 in 2018, from a ratio of 2.7 in 2017, and decreased from 3.0 in 2016. Current assets are impacted by the payment position with Medicare, change in net accounts receivable, and the change in current liabilities. The Hospital's current liabilities increased by \$216,802 in 2018 as compared to 2017 due primarily to an increase in current maturities of long-term obligations from a new capital lease obligation as well as an accrual of \$98,300 for estimated 340b program paybacks.

The Hospital's capital acquisitions were \$595,000, \$330,665, and \$50,501 during 2018, 2017, and 2016. The significant additions in 2018 were primarily related to the leased purchased CT scanner, clinic EHR software upgrades and a boiler replacement. The remaining change in capital assets, net, results from the normal annual depreciation provisions of \$699,042, \$681,920, and \$699,719 during 2018, 2017, and 2016.

Other noncurrent assets consist of Board funds that are available to fund the continuing operation of the Hospital, a debt service reserve fund, funds set aside for future replacement of capital assets, and funds set aside for payment of future health claims expense. These balances will change as tax appropriations and contributions are received. The board designated funds increased by \$49,392 and \$42,103 in 2018 and 2017, respectively. These funds are important in operating the Hospital on a day-to-day basis and to manage through periods of lower cash flows. Also included in other noncurrent assets are funds held by the Lincoln County Public Building Commission (PBC) which are for current debt service requirements.



LINCOLN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended March 31, 2018 and 2017

Operating results and changes in net position

In 2018, the Hospital's net position decreased by \$178,710 or 13.0 percent. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating revenues			
Net patient service revenue	\$ 6,657,489	\$ 6,550,270	\$ 6,669,806
Other operating revenue	<u>835,584</u>	<u>941,618</u>	<u>882,980</u>
Total operating revenues	<u>7,493,073</u>	<u>7,491,888</u>	<u>7,552,786</u>
Operating expenses			
Salaries and benefits	4,402,074	4,188,337	4,132,762
Supplies and other	3,170,515	3,317,304	3,139,418
Depreciation and amortization	<u>699,042</u>	<u>681,920</u>	<u>699,719</u>
Total operating expenses	<u>8,271,631</u>	<u>8,187,561</u>	<u>7,971,899</u>
Operating loss	(778,558)	(695,673)	(419,113)
Nonoperating revenues net of expenses and contributions for capital	<u>599,848</u>	<u>311,197</u>	<u>395,592</u>
Change in net position	<u>\$ (178,710)</u>	<u>\$ (384,476)</u>	<u>\$ (23,521)</u>

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally the difference between net patient service revenue and other operating revenues and the expenses incurred to generate those revenues. In 2018, the Hospital's operating loss increased by \$82,885 in comparison to 2017, while in 2017 the operating loss increased by \$276,560 in comparison to 2016. The Hospital's net patient service revenue in 2018 increased by 1.6 percent and in 2017 decreased by 1.8 percent over the previous year. The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, bad debts, and to a greater extent, the change in Medicare reimbursable costs. The increase in net revenues was accompanied with a 1.0 percent increase in operating expenses during 2018, and a 2.7 percent increase in 2017.

The Hospital received 80 percent in 2018 and 78 percent in 2017 of its net patient revenue from the Medicare program with these revenues determined based on the Hospital's status as a critical access hospital provider. This designation results in Hospital services to Medicare beneficiaries being reimbursed primarily based upon allowable costs and has helped stabilize the Hospital's net patient service revenues. This high concentration of Medicare revenues, however, makes it challenging for the Hospital to generate operating profits, as revenues from non-Medicare payers are not sufficient to cover the costs that are not reimbursed

LINCOLN COUNTY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED  
Years ended March 31, 2018 and 2017

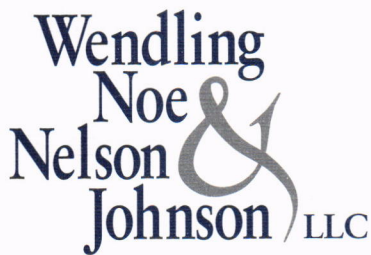
by the Medicare program. The Hospital's net revenues from Medicare were reduced by approximately \$97,000 and \$93,000 in 2018 and 2017, respectively, due to the sequestration payment cuts implemented by Medicare which became effective on April 1, 2013.

Employee salaries, wages, and benefits increased by \$213,737 or 5.1 percent in 2018, and increased by \$55,575 or 1.3 percent in 2017, as compared with the previous year. Salaries, wages, and employee benefits represent 66.1 percent, 63.9 percent, and 62.0 percent of total net patient service revenue in 2018, 2017, and 2016. The increase in 2018 resulted primarily from the increase in salaries and wages expenses. Employee benefits as a percentage of salary and wage expense were 29.7 percent in 2018, 30.3 percent in 2017, and 28.8 percent in 2016.

Supplies and other expenses decreased by \$146,789 in 2018, and increased by \$177,886 in 2017, and by \$220,014 in 2016. Items affecting the 2018 to 2017 comparison include a decrease in contract labor services. Items affecting the 2017 to 2016 include an increase in contracted provider coverage in the ER and contracted nursing services.

Nonoperating revenues (expenses) include an annual tax appropriation from Lincoln County, noncapital grants and contributions, interest expense, gain (loss) on equity investment, and investment income earned on investments. The Hospital is highly dependent on these nonoperating revenues to offset operating losses and to maintain the financial health necessary to ensure that the Hospital continues to provide high quality health care services to our patients.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Lincoln County Hospital, 624 N. 2nd, Lincoln, Kansas 67455.



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## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
Lincoln County Hospital

We have audited the accompanying financial statements of Lincoln County Hospital, and of its discretely presented component unit (Hospital), as of and for the years ended March 31, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity and discretely presented component unit of Lincoln County Hospital as of March 31, 2018 and 2017, and the changes in net position and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required supplementary information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other information*

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Lincoln County Hospital's basic financial statements as a whole. The supplementary information presented on pages 24 and 25 is for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the financial statements as a whole.

*Wendling Noel Nelson & Johnson 22C*

Topeka, Kansas  
August 9, 2018

FINANCIAL STATEMENTS

LINCOLN COUNTY HOSPITAL  
STATEMENTS OF NET POSITION  
March 31,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2018		2017	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash	\$ 1,174,714	\$ 165,543	\$ 952,807	\$ 91,380
Certificates of deposit		5,773		5,758
Assets limited as to use	149,418		137,150	
Accounts receivable, net of allowance for uncollectible accounts of \$173,616 in 2018 and \$120,438 in 2017	934,932		1,017,581	
Other receivables	37,559		107,774	
Inventories	132,637		155,547	
Prepaid expenses and other	28,965		43,721	
Estimated third-party payor settlements			55,000	
Total current assets	<u>2,458,225</u>	<u>171,316</u>	<u>2,469,580</u>	<u>97,138</u>
ASSETS LIMITED AS TO USE				
By Board of Trustees				
For operations	6,092		3,077	
For debt service reserve	353,358		315,515	
For capital assets	52,800		52,510	
For health claims	108,833		100,589	
By Public Building Commission	125,742		117,150	
	646,825	-	588,841	-
Less amounts required to meet current obligations	149,418		137,150	
	<u>497,407</u>	<u>-</u>	<u>451,691</u>	<u>-</u>
CAPITAL ASSETS, net	<u>4,221,445</u>	<u>-</u>	<u>4,325,929</u>	<u>-</u>
OTHER ASSETS	<u>44,776</u>	<u>-</u>	<u>34,192</u>	<u>-</u>
Total assets	<u>7,221,853</u>	<u>171,316</u>	<u>7,281,392</u>	<u>97,138</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows on advance refunding	257,986	-	286,378	-
Total assets and deferred outflows of resources	<u>\$ 7,479,839</u>	<u>\$ 171,316</u>	<u>\$ 7,567,770</u>	<u>\$ 97,138</u>

The accompanying notes are an integral part of these statements.

# LIABILITIES AND NET POSITION

	2018		2017	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT LIABILITIES				
Current maturities of long-term obligations	\$ 396,363	\$ -	\$ 316,522	\$ -
Accounts payable and other accrued	232,854		114,555	
Salaries payable	198,566		193,221	
Payroll taxes payable	91,951		97,686	
Vacation benefits payable	140,606		132,947	
Other accrued benefits	64,944		60,994	
Interest payable	12,508		13,467	
Estimated third-party payor settlements	8,402			
Total current liabilities	<u>1,146,194</u>	<u>-</u>	<u>929,392</u>	<u>-</u>
LONG-TERM OBLIGATIONS, less current maturities				
	<u>5,219,971</u>		<u>5,345,994</u>	
Total liabilities	<u>6,366,165</u>	<u>-</u>	<u>6,275,386</u>	<u>-</u>
NET POSITION				
Invested in capital assets net of related debt	(1,442,187)		(1,336,587)	
Restricted				
For debt service	125,742		117,150	
For capital assets	22,500			
For specific operating activities		80,000		
Unrestricted	<u>2,407,619</u>	<u>91,316</u>	<u>2,511,821</u>	<u>97,138</u>
Total net position	<u>1,113,674</u>	<u>171,316</u>	<u>1,292,384</u>	<u>97,138</u>
Total liabilities and net position	<u>\$ 7,479,839</u>	<u>\$ 171,316</u>	<u>\$ 7,567,770</u>	<u>\$ 97,138</u>



LINCOLN COUNTY HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
Year ended March 31,

	2018		2017	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Net patient service revenue	\$ 6,657,489	\$ -	\$ 6,550,270	\$ -
Other	<u>835,584</u>	<u>88,780</u>	<u>941,618</u>	<u>82,322</u>
Total operating revenues	<u>7,493,073</u>	<u>88,780</u>	<u>7,491,888</u>	<u>82,322</u>
Operating expenses				
Salaries and wages	3,393,668		3,214,414	
Employee benefits	1,008,406		973,923	
Supplies and other	3,170,515	15,086	3,317,304	61,997
Depreciation	<u>699,042</u>		<u>681,920</u>	
Total operating expenses	<u>8,271,631</u>	<u>15,086</u>	<u>8,187,561</u>	<u>61,997</u>
Operating income (loss)	<u>(778,558)</u>	<u>73,694</u>	<u>(695,673)</u>	<u>20,325</u>
Nonoperating revenues (expenses)				
Tax appropriations	535,826		524,981	
Investment income	35,364	484	30,456	517
Interest expense	(168,510)		(349,792)	
Gain (loss) on investment in equity investee	62,699		(31,514)	
Noncapital grants and contributions	<u>81,714</u>		<u>137,066</u>	
Total nonoperating revenues	<u>547,093</u>	<u>484</u>	<u>311,197</u>	<u>517</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	<u>(231,465)</u>	<u>74,178</u>	<u>(384,476)</u>	<u>20,842</u>
Capital grants and contributions	<u>52,755</u>			
Change in net position	<u>(178,710)</u>	<u>74,178</u>	<u>(384,476)</u>	<u>20,842</u>
Net position beginning of year	<u>1,292,384</u>	<u>97,138</u>	<u>1,676,860</u>	<u>76,296</u>
Net position end of year	<u>\$ 1,113,674</u>	<u>\$ 171,316</u>	<u>\$ 1,292,384</u>	<u>\$ 97,138</u>

The accompanying notes are an integral part of these statements.



LINCOLN COUNTY HOSPITAL  
STATEMENTS OF CASH FLOWS  
Year ended March 31,

	2018		2017	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ 6,803,540	\$ -	\$ 7,053,938	\$ -
Payments to or on behalf of employees	(4,390,855)		(4,185,884)	
Payments for supplies and services	(3,052,115)	(15,086)	(3,228,700)	(61,997)
Other receipts and payments	<u>905,799</u>	<u>88,780</u>	<u>932,707</u>	<u>82,322</u>
Net cash provided by operating activities	<u>266,369</u>	<u>73,694</u>	<u>572,061</u>	<u>20,325</u>
Cash flows from noncapital financing activities				
Tax appropriations	535,826		524,981	
Noncapital grants and contributions	<u>81,714</u>		<u>137,066</u>	
Net cash provided by noncapital activities	<u>617,540</u>	<u>-</u>	<u>662,047</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchase of capital assets	(222,079)		(330,665)	
Capital grants and contributions	52,755			
Proceeds from long-term debt			5,611,064	
Principal paid on long-term debt obligations	(354,574)		(5,576,572)	
Interest paid on long-term debt obligations	(167,599)		(246,323)	
Payment of bond financing costs and deferred outflows on advance refunding of bonds			<u>(422,513)</u>	
Net cash used by capital and related financing activities	<u>(691,497)</u>	<u>-</u>	<u>(965,009)</u>	<u>-</u>
Cash flows from investing activities				
Change in certificates of deposit		(15)		(12)
Distribution from investment	52,115			
Investment income received	<u>35,364</u>	<u>484</u>	<u>30,456</u>	<u>517</u>
Net cash provided by investing activities	<u>87,479</u>	<u>469</u>	<u>30,456</u>	<u>505</u>
Change in cash and cash equivalents	279,891	74,163	299,555	20,830
Cash and cash equivalents at beginning of year	<u>1,541,648</u>	<u>91,380</u>	<u>1,242,093</u>	<u>70,550</u>
Cash and cash equivalents at end of year	<u>\$ 1,821,539</u>	<u>\$ 165,543</u>	<u>\$ 1,541,648</u>	<u>\$ 91,380</u>
Reconciliation of cash and cash equivalents				
Cash	\$ 1,174,714	\$ 165,543	\$ 952,807	\$ 91,380
Assets limited as to use	<u>646,825</u>		<u>588,841</u>	
	<u>\$ 1,821,539</u>	<u>\$ 165,543</u>	<u>\$ 1,541,648</u>	<u>\$ 91,380</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL  
STATEMENTS OF CASH FLOWS - CONTINUED  
Year ended March 31,

	2018		2017	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (778,558)	\$ 73,694	\$ (695,673)	\$ 20,325
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation	699,042		681,920	
Provision for bad debts	266,769		204,310	
Changes in				
Accounts receivable	(184,120)		(445,642)	
Estimated third-party payor settlements	63,402		745,000	
Other receivables	70,215		(8,911)	
Inventories	22,910		(14,815)	
Prepaid expenses and other	14,756		28,517	
Accounts payable and accrued expenses	91,953		77,355	
Net cash provided by operating activities	<u>\$ 266,369</u>	<u>\$ 73,694</u>	<u>\$ 572,061</u>	<u>\$ 20,325</u>
Noncash investing, capital, and financing activities				
Acquisition of capital assets through capital lease obligations	<u>\$ 334,914</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES

1. Reporting entity

Lincoln County Hospital (the Hospital) is owned by Lincoln County, Kansas, and is operated by the Board of Trustees of the Hospital, a seven-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1952, is a critical access hospital located in Lincoln, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of the County.

2. Component unit

The financial statements include the discrete presentation of financial data of Lincoln County Hospital and Health Care Foundation (the Foundation). The component unit is reported separately to emphasize that it is legally separate from the Hospital.

The Foundation, which is a not-for-profit corporation, was established in 2005 for the purpose of providing financial assistance to the Hospital. The Foundation is administered by a self-perpetuating Board of Directors. One of the six members of the Foundation's Board is also a member of the Hospital's Board of Trustees.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

The Hospital considers all cash and highly-liquid debt instruments with maturities of three months or less, excluding any such amounts included as certificates of deposit, to be considered cash equivalents for purposes of the cash flow statement. This represents an accounting policy change since previously, the amounts listed as assets limited as to use, were excluded from cash equivalents. Comparative financial statements of the prior year have been restated to reflect this change.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the balance of private pay receivables.

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

7. Inventories

Inventories are stated at the lower of cost or fair value with cost determined using the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for on-going hospital operations, for the replacement of capital assets, for debt service reserve, and for payment of partially self-insured health claims, over which the Board retains control and may at its discretion subsequently use for other purposes; donor restricted funds to be used for capital asset acquisitions; and assets under a bond indenture agreement that are held by the Lincoln County Public Building Commission. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

9. Capital assets

Capital assets, including assets recorded as capital leases, are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended useful lives of the item or the properties.

10. Other assets

The Hospital has a 3.4 percent equity interest in Community Holdings LLC, which provides stop-loss insurance coverage to the Hospital's partially self-funded health insurance plan (see Note L). The activity for this entity is reported on the equity method and the Hospital recognized a gain of \$62,699 in 2018 and loss of \$31,514 in 2017.

11. Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then.

12. Vacation benefits payable

Employees of the Hospital are entitled to paid vacation depending on length of service and whether they are full or part time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all vested accrued vacation, up to an allowable maximum. The Hospital accrues vacation benefits as earned.

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

13. Accrued health insurance claims

The Hospital is partially self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience.

Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary from the estimate.

14. Net position

Net position of the Hospital is classified into three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase of assets. "Restricted net position" is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with the Lincoln County, Kansas, Public Building Commission as required under the Pledge of Revenues and Operation Agreement signed in connection with the issuance of bonds by the Lincoln County, Kansas, Public Building Commission. "Unrestricted net position" is remaining net position that does not meet the definitions of the other two components of net position.

15. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions and tax appropriations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

16. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

17. Cost of borrowing

Interest costs including amortization of bond premiums incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Deferred financing costs incurred in connection with the issuance of long-term debt are expensed as incurred.

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES - Continued

18. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

19. Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

20. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

21. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

22. Reclassifications

Certain reclassifications were made to the 2017 financial statements to conform to the 2018 presentation. The reclassifications had no effect on the previously reported net position or change in net position.

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE B - NET PATIENT SERVICE REVENUE - Continued

services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through March 31, 2017.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of gross and net patient service revenue follows:

	<u>2018</u>	<u>2017</u>
Gross patient service revenue		
Inpatient	\$ 2,414,825	\$ 2,304,005
Outpatient	3,849,346	3,842,295
Physician services	267,056	248,815
Rural health clinic	<u>667,011</u>	<u>621,875</u>
	7,198,238	7,016,990
Third-party contractual adjustments	(240,694)	(232,043)
Charity care	(18,283)	(20,083)
Other discounts and allowances	(15,003)	(10,284)
Provision for bad debts	<u>(266,769)</u>	<u>(204,310)</u>
Net patient service revenue	<u>\$ 6,657,489</u>	<u>\$ 6,550,270</u>

Revenue from the Medicare program accounted for approximately 80 percent and 78 percent of the Hospital's net patient service revenue during 2018 and 2017, respectively. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2018 and 2017 was \$18,283 and \$20,083, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost report, was \$20,179 and \$22,196 for 2018 and 2017, respectively.



LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE C - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Hospital's allowance for uncollectible accounts on amounts due from patients was 74 percent and 70 percent of self-pay accounts receivable as of March 31, 2018 and 2017, respectively. The Hospital's net bad debt write-offs were \$213,591 and \$232,661 for the years ended March 31, 2018 and 2017, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended March 31, 2018 or 2017. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

NOTE D - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to total deposits in excess of F.D.I.C. coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

At March 31, 2018, the carrying amount of the Hospital's bank deposits were \$1,695,617 and the bank balances were \$1,792,434. Of the bank balances, \$358,833 was covered by federal depository insurance and \$1,433,601 was collateralized with securities held by a third-party bank.

NOTE E - ASSETS LIMITED AS TO USE

The composition of assets limited as to use which are invested in cash, is as follows:

	<u>2018</u>	<u>2017</u>
Board of Trustee funds	\$ 521,083	\$ 471,691
Under bond agreements	<u>125,742</u>	<u>117,150</u>
Total assets limited as to use	<u>\$ 646,825</u>	<u>\$ 588,841</u>

Assets limited as to use by bond agreements are held by the Lincoln County Public Building Commission for the repayment of principal and interest on the bonds.



LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE F - CAPITAL ASSETS

	Balance March 31, 2017	Transfers and additions	Retirements	Balance March 31, 2018
Land	\$ 19,725	\$ -	\$ -	\$ 19,725
Land improvements	187,289			187,289
Buildings	2,171,741			2,171,741
Fixed equipment	5,410,022	73,649		5,483,671
Movable equipment	2,974,718	528,589		3,503,307
	<u>10,763,495</u>	<u>602,238</u>	<u>-</u>	<u>11,365,733</u>
Less accumulated depreciation and amortization				
Land improvements	93,874	12,458		106,332
Buildings	1,343,282	74,364		1,417,646
Fixed equipment	2,513,682	297,439		2,811,121
Movable equipment	2,493,967	315,222		2,809,189
	<u>6,444,805</u>	<u>699,483</u>	<u>-</u>	<u>7,144,288</u>
Projects in progress	<u>7,239</u>	<u>(7,239)</u>	<u>-</u>	<u>-</u>
Capital assets, net	<u>\$ 4,325,929</u>	<u>\$ (104,484)</u>	<u>\$ -</u>	<u>\$ 4,221,445</u>
	Balance March 31, 2016	Transfers and additions	Retirements	Balance March 31, 2017
Land	\$ 19,725	\$ -	\$ -	\$ 19,725
Land improvements	187,289			187,289
Buildings	2,023,310	148,431		2,171,741
Fixed equipment	5,410,022			5,410,022
Movable equipment	2,799,724	174,994		2,974,718
	<u>10,440,070</u>	<u>323,425</u>	<u>-</u>	<u>10,763,495</u>
Less accumulated depreciation and amortization				
Land improvements	81,416	12,458		93,874
Buildings	1,274,967	68,315		1,343,282
Fixed equipment	2,216,624	297,058		2,513,682
Movable equipment	2,189,879	304,088		2,493,967
	<u>5,762,886</u>	<u>681,919</u>	<u>-</u>	<u>6,444,805</u>
Projects in progress	<u>-</u>	<u>7,239</u>	<u>-</u>	<u>7,239</u>
Capital assets, net	<u>\$ 4,677,184</u>	<u>\$ (351,255)</u>	<u>\$ -</u>	<u>\$ 4,325,929</u>

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE G - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2018</u>	<u>2017</u>
Capital lease obligation with the Lincoln County, Kansas Public Building Commission; interest rate of 4.375% to 5.50%; issued on December 15, 2008, in the original amount of \$6,300,000, partially defeased in 2017	\$ -	\$ 190,000
Capital lease obligation with the Lincoln County, Kansas Public Building Commission Refunding Revenue Bonds Series 2016; interest rate of 2.00% to 3.00%; issued on October 6, 2016; in the original amount of \$5,330,000; due serially through March 1, 2035	5,105,000	5,205,000
Capital lease obligation; imputed interest rate of 2.135%; payable in monthly installments of \$5,881 through March 2022; collateralized by leased equipment with an amortized cost of \$267,931 at March 31, 2018	<u>270,340</u>	<u>          </u>
	5,375,340	5,395,000
Add net unamortized premium of bonds	240,994	267,516
Less current maturities of long-term debt	<u>(396,363)</u>	<u>(316,522)</u>
Long-term debt, net of current maturities	<u>\$ 5,219,971</u>	<u>\$ 5,345,994</u>

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Capital lease with PBC</u>	<u>Total long-term obligations</u>
Outstanding at March 31, 2016	\$ 126,572	\$ 5,515,000	\$ 5,641,572
Issuance of long term debt		5,330,000	5,330,000
Principal payments	<u>(126,572)</u>	<u>(5,450,000)</u>	<u>(5,576,572)</u>
Outstanding at March 31, 2017	-	5,395,000	5,395,000
Capital lease obligation incurred	334,914		334,914
Principal payments	<u>(64,574)</u>	<u>(290,000)</u>	<u>(354,574)</u>
Outstanding at March 31, 2018	<u>\$ 270,340</u>	<u>\$ 5,105,000</u>	<u>\$ 5,375,340</u>

On December 15, 2008, the Lincoln County, Kansas, Public Building Commission (PBC) issued Revenue Bonds, Series 2008 (the Bonds), in the amount of \$6,300,000, on behalf of the Hospital pursuant to a bond resolution dated December 1, 2008. The proceeds were used, together with other available funds

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE G - LONG-TERM OBLIGATIONS - Continued

of the Hospital, for the purpose of renovating the Hospital building (the Project). In 2016, \$5,145,000 of these bonds were legally defeased when a portion of the proceeds from the 2016 bond issue was placed into a separate trust for the benefit of the 2008 bond holders.

On October 6, 2016, the Lincoln County, Kansas, PBC issued \$5,330,000 in Refunding Revenue Bonds, Series 2016, on behalf of the Hospital. The proceeds of these bonds were used to advance refund \$5,145,000 of the Series 2008 bonds. As a part of this transaction, the Hospital recognized a deferred refunding loss of \$300,882 which is reported as a deferred outflow. The refunding loss will be systematically amortized through March 1, 2035. The net present value of the savings is expected to be \$982,745 over the term of the life of the bonds. The proceeds from this issue were placed in escrow and were used to (1) on March 1, 2018, advance refund Series 2008 bonds scheduled to mature, inclusive, in the aggregate principal amount of \$5,145,000, and (2) pay certain costs related to the issuance of the 2016 bonds. As of March 31, 2018, \$0 of the Series 2008 bonds remained outstanding.

The PBC is a municipal corporation created by the County to issue the Bonds. In connection with the issuance of the Bonds, the PBC, the County, and the Hospital entered into a lease agreement in which the PBC leased the Project to the County and the Hospital for rental payments sufficient to provide for the payment of principal and interest on the Bonds. The lease contains a covenant by the County to make all rental payments required under the lease from whatever source of revenues is legally available and to levy ad valorem taxes without limit if necessary to make such payments.

In connection with the issuance of the Bonds, the Hospital and the County entered into a pledge of revenues agreement. Under the agreement, the Hospital pledged its net revenues to the County to secure the payment of principal and interest on the Bonds. The pledge of revenues agreement requires the Hospital to set aside certain amounts sufficient to pay principal and interest on the Bonds as payments are due. Such reserves were maintained and are included with assets limited as to use in the financial statements.

Scheduled annual debt service requirements on the lease with the Public Building Commission are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 305,000	\$ 150,100	\$ 455,100
2020	310,000	144,000	454,000
2021	325,000	134,700	459,700
2022	250,000	124,950	374,950
2023	250,000	117,450	367,450
2024-2028	1,360,000	470,700	1,830,700
2029-2033	1,595,000	252,300	1,847,300
2034-2035	710,000	32,100	742,100
	<u>\$ 5,105,000</u>	<u>\$ 1,426,300</u>	<u>\$ 6,531,300</u>

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE G - LONG-TERM OBLIGATIONS - Continued

Total interest costs are summarized as follows:

	<u>2018</u>	<u>2017</u>
Interest incurred	\$ 166,640	\$ 236,601
Amortization of bond premium	(26,522)	(13,548)
Amortization of deferred outflows on advance refunding	28,392	14,503
Bond issuance costs incurred	<u>          </u>	<u>112,236</u>
Interest expense	<u>\$ 168,510</u>	<u>\$ 349,792</u>

NOTE H - PENSION PLAN

Employees of the Hospital participate in the Lincoln County Hospital Employees' Pension Plan (the Plan), which is a defined contribution plan. The payroll for employees covered by the Plan for the years ended March 31, 2018 and 2017, was \$2,736,783 and \$2,593,436, respectively. Substantially all employees of the Hospital who are 21 years of age or older and work over 1,000 hours are eligible to participate in the Plan after one year of employment. Covered employees are required under the terms of the Plan to contribute 2.5 percent of the first \$7,800 of covered compensation plus 5 percent of the covered compensation exceeding \$7,800. Under the terms of the Plan, the Hospital contributes 4.5 percent of the first \$7,800 of covered compensation, plus 9 percent of the covered compensation exceeding \$7,800. Contributions to the Plan made by employees vest immediately, and contributions to the Plan made by the Hospital vest based upon the Plan's vesting schedule and the employees' years of service with the Hospital. The total cost of the Plan for the years ended March 31, 2018 and 2017, was \$218,311 and \$204,031, respectively.

NOTE I - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is as follows:

	<u>2018</u>	<u>2017</u>
Medicare	55.6%	46.8%
Medicaid	3.6	3.0
Blue Cross	8.0	11.1
Commercial insurance	9.4	20.1
Self-pay	<u>23.4</u>	<u>19.0</u>
	<u>100.0%</u>	<u>100.0%</u>

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE J - RISK MANAGEMENT

For the years ended March 31, 2018 and 2017, the Hospital was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. All coverage is on a claims-made basis. The above policies were renewed on April 1, 2018, for the policy period from April 1, 2018 to April 1, 2019.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE K - COMMITMENTS AND CONTINGENCIES

The Hospital participates in the 340B Drug Pricing Program (340B Program) which enables the Hospital to receive discounted drug prices on certain outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) which is currently conducting an audit of the Hospital's 340B Program. HRSA identified certain compliance items for which management has recorded an estimated liability of \$98,000 as of March 31, 2018, for expected refunds to drug manufacturers. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, there is a reasonable possibility that material changes to financial statement amounts related to the 340B Program could occur in the near term.

NOTE L - EMPLOYEE HEALTH INSURANCE CLAIMS

The Hospital partially self-insures health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$32,500 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained a third-party administrator to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts recovered by reinsurance. The Hospital's estimated liability for reported and unreported claims incurred as of March 31, 2018 and 2017, was \$23,676 and \$20,000, respectively.

LINCOLN COUNTY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS - CONTINUED  
March 31, 2018 and 2017

NOTE L - EMPLOYEE HEALTH INSURANCE CLAIMS - Continued

The following is a summary of activity under this arrangement:

	<u>2018</u>	<u>2017</u>
Estimated employee health insurance claims payable at the beginning of the year	\$ 20,000	\$ 35,000
Provision for employer's share of incurred claims and reinsurance expense for the period, net of any reinsurance proceeds	485,763	443,331
Employee contributions	46,823	40,545
Payments made for claims and reinsurance, net of reinsurance recoveries	<u>(528,910)</u>	<u>(498,876)</u>
Estimated employee health insurance claims payable at the end of the year	<u>\$ 23,676</u>	<u>\$ 20,000</u>

The Hospital has a 3.4 percent interest in Community Holdings LLC, which provides individual stop-loss coverage for incurred claims expense in excess of \$32,500 for each covered individual. The Hospital's equity in the undistributed net earnings since acquisition is \$44,776. The Hospital paid Community Holdings LLC approximately \$294,000 and \$236,000 in 2018 and 2017, respectively, for premiums under its partially self-insured health insurance plan.

NOTE M - RELATED PARTY TRANSACTIONS

Lincoln County levies and collects property taxes for the benefit of the Hospital. The Hospital received \$535,826 and \$524,981 in tax appropriations from Lincoln County in 2018 and 2017, respectively. The Hospital also received \$12,421 and \$59,500 in contributions from the Foundation during 2018 and 2017, respectively.

A member of the Hospital's Board of Trustees provides pharmacy services to the Hospital. For each of the years ended March 31, 2018 and 2017, the Hospital expensed approximately \$38,000 and \$35,000, respectively, for these services.

NOTE N - SUBSEQUENT EVENTS

Management has evaluated all subsequent events through the date of the independent certified public accountant's report, the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

LINCOLN COUNTY HOSPITAL  
PATIENT SERVICE REVENUE  
Year ended March 31,

	2018			2017
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
Routine services				
Adults and pediatrics	\$1,092,209	\$ -	\$1,092,209	\$1,041,438
Ancillary services				
Operating room				5,559
Radiology, ultrasound, nuclear medicine, echocardiography, vascular studies, and mammography	64,673	444,599	509,272	480,509
CT scan and MRI	65,690	731,840	797,530	864,986
Laboratory and blood	200,784	1,103,397	1,304,181	1,364,585
Physical therapy	121,085	402,602	523,687	528,846
Occupational therapy	96,461	230,027	326,488	221,567
Speech therapy	16,072	48,277	64,349	35,007
Electrocardiology	8,906	76,879	85,785	80,115
Medical supplies	273,488	66,505	339,993	333,294
Pharmacy	472,924	265,188	738,112	704,826
Sleep lab				38,150
Emergency room	372	276,292	276,664	221,138
Treatment room	2,161	165,876	168,037	172,702
Observation care		37,864	37,864	53,578
Clinic and physician		934,067	934,067	870,690
	<u>1,322,616</u>	<u>4,783,413</u>	<u>6,106,029</u>	<u>5,975,552</u>
	<u>\$2,414,825</u>	<u>\$4,783,413</u>	<u>7,198,238</u>	<u>7,016,990</u>
Less				
Contractual adjustments - third-party payors			(240,694)	(232,043)
Charity care			(18,283)	(20,083)
Administrative discounts			(15,003)	(10,284)
Provision for bad debts			(266,769)	(204,310)
Net patient service revenue			<u>\$6,657,489</u>	<u>\$6,550,270</u>



LINCOLN COUNTY HOSPITAL  
OPERATING EXPENSES BY FUNCTIONAL DIVISION  
Year ended March 31,

	2018			2017		
	Salaries	Supplies and other, employee benefits, and depreciation	Total	Salaries	Supplies and other, employee benefits, and depreciation	Total
Routine services						
Adults and pediatrics	\$ 728,194	\$ 315,879	\$ 1,044,073	\$ 691,020	\$ 458,937	\$ 1,149,957
Ancillary services						
Operating room					5,607	5,607
Radiology, ultrasound, nuclear medicine, echocardiography, vascular studies, and mammography	161,225	114,407	275,632	169,091	101,975	271,066
CT scan and MRI	17,591	60,132	77,723	19,858	64,130	83,988
Laboratory and blood	97,917	182,190	280,107	96,250	189,621	285,871
Physical therapy		235,364	235,364		226,127	226,127
Occupational therapy		155,124	155,124		128,656	128,656
Speech therapy		56,747	56,747		36,415	36,415
Electrocardiology	2,653		2,653	3,314	405	3,719
Medical supplies	27,580	55,151	82,731	22,704	64,767	87,471
Pharmacy		288,499	288,499		218,523	218,523
Sleep lab					8,850	8,850
340(b) drug program		628,049	628,049		682,577	682,577
Emergency room	440,002	201,495	641,497	423,718	258,256	681,974
Clinic and physician	899,165	272,999	1,172,164	795,287	295,590	1,090,877
Other	2,179		2,179	2,449		2,449
	<u>1,648,312</u>	<u>2,250,157</u>	<u>3,898,469</u>	<u>1,532,671</u>	<u>2,281,499</u>	<u>3,814,170</u>
General services						
Administration and general	120,028	308,149	428,177	115,079	315,016	430,095
Accounting	192,970	325,217	518,187	185,963	269,791	455,754
Plant operations and maintenance	57,388	229,458	286,846	54,219	237,878	292,097
Laundry	29,032	28,790	57,822	28,917	25,659	54,576
Housekeeping	72,971	35,128	108,099	65,361	34,375	99,736
Dietary	187,032	151,757	338,789	183,311	139,511	322,822
Nursing administration	131,958	105,054	237,012	163,410	72,593	236,003
Medical records	107,596	46,258	153,854	95,593	36,787	132,380
Education and activities	36,779	15,993	52,772	21,157	10,296	31,453
Patient care coordination	81,408	18,882	100,290	77,713	16,500	94,213
Employee benefits - other		348,199	348,199		392,385	392,385
Depreciation		699,042	699,042		681,920	681,920
	<u>1,017,162</u>	<u>2,311,927</u>	<u>3,329,089</u>	<u>990,723</u>	<u>2,232,711</u>	<u>3,223,434</u>
	<u>\$ 3,393,668</u>	<u>\$ 4,877,963</u>	<u>\$ 8,271,631</u>	<u>\$ 3,214,414</u>	<u>\$ 4,973,147</u>	<u>\$ 8,187,561</u>